

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: CN 11-12
)	
)	
SCB BANK)	Effective Date: May 16, 2011
)	
)	
Shelbyville, Indiana)	
OTS Docket No. 04044)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, SCB Bank, Shelbyville, Indiana, OTS Docket No. 04044 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Central Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Cease and Desist.

1. The Association and its directors, officers, and employees shall cease and desist from any action (alone or with others) for or toward, causing, bringing about, participating in, counseling,

or aiding and abetting the unsafe or unsound practices that resulted in the Association operating with:

- (a) an excessive level of adversely classified loans; and
- (b) inadequate earnings to augment capital as described in the comprehensive OTS

Report of Examination of the Association dated September 13, 2010 (2010 ROE).

2. The Association and its directors, officers, and employees also shall cease and desist from any action (alone or with others) for or toward, causing, bringing about, participating in, counseling, or aiding and abetting violations of the following laws and regulations cited in the 2010 ROE:

- (a) 12 C.F.R. § 567.6 (requiring risk-based capital calculations to include recourse obligations);
- (b) 12 C.F.R. Part 570 – Appendix B (requiring an annual report to the board of directors regarding the Association’s customer information security program);
- (c) 12 C.F.R. § 202.9(a)(1) (requiring adverse action notices be sent to certain loan applicants);
- (d) 12 C.F.R. § 202.13(a)(1) (prohibiting the collection of Government Monitoring Information on certain loan applicants); and
- (e) 12 C.F.R. § 572.9(a) and (d) (requiring timely notice of a residence located in special flood hazard area).

Capital.

3. By September 30, 2011, the Association shall have and maintain: a Tier 1 (Core) Capital Ratio equal to or greater than eight and one quarter percent (8.25%) after the funding of an adequate Allowance for Loan and Lease Losses (ALLL) and a Total Risk-Based Capital Ratio

equal to or greater than twelve and one-quarter percent (12.25%).¹

Capital and Business Plan.

4. By June 30, 2011, the Association shall submit to the Regional Director a written plan (Capital and Business Plan) for the period beginning with July 1, 2011 through December 31, 2013 addressing the requirements of this Order and including capital enhancement strategies necessary for the Association to have and maintain capital at the levels prescribed in

Paragraph 3. At a minimum, the Capital and Business Plan shall:

- (a) identify the specific sources and methods by which additional capital will be raised to achieve and maintain the Association's capital at the levels prescribed in Paragraph 3;
- (b) detail the Association's capital preservation and enhancement strategies with specific narrative goals;
- (c) contain operating strategies to achieve realistic core earnings;
- (d) include quarterly financial projections (balance sheet and income statement), including Tier 1 (Core) and Total Risk Based Capital Ratios, for the period covered by the Capital and Business Plan; and
- (e) identify all relevant assumptions made in formulating the Capital and Business Plan and include a requirement that documentation supporting such assumptions be retained by the Association.

5. Upon receipt of written notice of non-objection from the Regional Director to the Capital and Business Plan, the Association shall implement and adhere to the Capital and Business Plan.

¹ The requirement in this Paragraph to have and maintain a specific capital level means that the Association may not be deemed to be "well-capitalized" for purposes of 12 U.S.C. §1831o and 12 C.F.R. Part 565, pursuant to 12 C.F.R. §565.4(b)(1)(iv).

A copy of the Capital and Business Plan shall be provided to the Regional Director within seven (7) days after Board approval.

6. Any material modifications² to the Capital and Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.

7. By December 31, 2011, and each December 31st thereafter, the Capital and Business Plan shall be updated and submitted to the Regional Director pursuant to Paragraph 4 above and shall incorporate the Association's budget plan and profit projections for the next two (2) fiscal years taking into account any revisions to the Association's loan, investment and operating policies.

Capital and Business Plan Variance Reports.

8. Within forty-five (45) days after the end of each quarter, after implementation of the Capital and Business Plan, the Board shall review written quarterly variance reports on the Association's compliance with its Capital and Business Plan (Variance Reports). The Board's review of Variance Reports and compliance with the Capital and Business Plan shall include a review of the internal and external risks affecting the Association's ability to successfully implement the Capital and Business Plan. The minutes of the Board meeting shall fully document the Board's review and discussion. The Variance Reports shall:

- (a) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Capital and Business Plan;
- (b) contain an analysis and explanation of identified variances; and

² A modification shall be considered material under this Paragraph if the Association (a) plans to engage in any activity that is inconsistent with the Capital and Business Plan; or (b) exceeds the level of any activity contemplated in the Capital and Business Plan by more than ten percent (10%).

(c) discuss the specific measures taken or to be taken by the Association to address identified variances.

9. A copy of each Variance Report shall be provided to the Regional Director within seven (7) days after the Board meeting at which it was reviewed and discussed.

Contingency Plan.

10. Within fifteen (15) days after: (a) the Association fails to meet the capital requirements prescribed in Paragraph 3; (b) the Association fails to comply with the Capital and Business Plan prescribed in Paragraph 4; or (c) any written request from the Regional Director, the Association shall submit a written Contingency Plan that is acceptable to the Regional Director.

11. The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (a) merger with, or acquisition by, another federally insured depository institution or holding company thereof; or (b) voluntary dissolution by filing an appropriate application with the OTS in conformity with applicable laws, regulations and regulatory guidance.

12. Upon receipt of written notification from the Regional Director, the Association shall implement and adhere to the Contingency Plan immediately. The Association shall provide the Regional Director with written status reports detailing the Association's progress in implementing the Contingency Plan by no later than the first (1st) and fifteenth (15th) of each month following implementation of the Contingency Plan.

Concentrations of Credit.

13. Within forty-five (45) days, the Association shall revise its written program for identifying, monitoring, and controlling risks associated with concentrations of credit (Credit

Concentration Program) to ensure that it addresses all corrective actions set forth in the 2010 ROE relating to concentrations of credit. The Credit Concentration Program shall comply with all applicable laws, regulations and regulatory guidance. The Association shall develop a written action plan to reduce the risk of any concentrations deemed imprudent for the Association's current earnings and risk profile.

Mortgage Lending Operation.

14. Within sixty (60) days, the Association shall develop a written program to improve the administration of its mortgage banking operation (Mortgage Banking Program) and address all corrective actions in the 2010 ROE relating to mortgage banking. The Mortgage Banking Program shall comply with all applicable laws, regulations, and regulatory guidance, including Section 212 of the OTS Examination Handbook. In addition, the Mortgage Banking Program shall include, but not be limited to:

- (a) credit quality criteria and procedures to ensure that loans are originated and maintained in accordance with the Association's written lending policy;
- (b) Board review, approval, and monitoring of the Association's nontraditional mortgage products and subprime lending;
- (b) concentration limits on the Association's mortgage banking operation;
- (c) a requirement that any mortgage loan containing exceptions to the Association's written lending policy be approved by the Board, or a designated committee thereof, prior to being approved, originated, extended, renewed, altered or restructured;
- (d) a system to track and evaluate any loans approved by the Board that contain policy exceptions;
- (e) procedures to identify, measure, monitor, and mitigate the risks in the

Association's mortgage banking operation; and

(f) a formalized reporting mechanism to the Board, on at least a quarterly basis, summarizing the risk in the mortgage banking operation.

15. Within sixty-five (65) days, the Association shall submit its Mortgage Banking Program to the Regional Director for review and comment. Upon receipt of written notification from the Regional Director that the Mortgage Banking Program is acceptable, the Association shall implement and adhere to the Mortgage Banking Program.

16. The Board shall ensure that the Association has processes, personnel, and control systems in place to ensure implementation of and adherence to the Mortgage Banking Program.

Credit Administration.

17. Within forty-five (45) days, the Association shall implement credit administration policies, procedures, practices, and controls (Credit Administration Policy) to address all corrective actions in the 2010 ROE relating to credit administration. The Credit Administration Policy shall comply with all applicable laws, regulations and regulatory guidance.

TDR Policy.

18. Within thirty (30) days, the Association shall develop written accounting policies and procedures to identify, assess, and account for troubled debt restructuring (TDR Policy) consistent with generally accepted accounting principles (GAAP) and all applicable laws, regulations, and regulatory guidance. At a minimum, the TDR Policy shall address all corrective actions in the 2010 ROE relating to trouble debt restructuring.

Asset Quality.

19. Effective immediately, the Association shall develop individual written specific workout plans for each adversely classified loan or group of such classified loans to any one borrower or

loan relationship of two hundred thousand dollars (\$200,000) or greater, including unfunded loan commitments (collectively, Loan Workout Plans).

20. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending June 30, 2011, the Association shall submit a quarterly written asset status report (Quarterly Asset Report) to the Board. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. The Quarterly Asset Report shall include, at a minimum:

- (a) the current status of all Loan Workout Plans;
- (b) the ratio of all classified assets to Tier 1 (Core) capital plus ALLL;
- (c) a comparison of all classified assets at the current quarter end with the preceding quarter;
- (d) a discussion of the actions taken during the preceding quarter to reduce the Association's level of classified assets; and
- (e) any recommended revisions or updates to the individual Loan Workout Plans.

21. Within sixty (60) days after the end of each quarter, beginning with the quarter ending June 30, 2011, a copy of the Quarterly Asset Report shall be provided to the Regional Director.

Management Succession Plan.

22. By July 31, 2011, the Board shall develop and submit for Regional Director review and comment a written plan for management succession at the Association (Management Succession Plan). The Management Succession Plan shall include, at a minimum, timeframes for the Association to have and retain qualified Senior Executive Officers³ appropriate for its Capital and Business Plan. Each Senior Executive Officer shall have qualifications and experience

³ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

commensurate with his or her duties and responsibilities at the Association. The President or Chief Executive Officer shall have a proven ability in managing a financial institution of comparable size with improving earnings. A senior credit administration officer shall have collection and loan workout experience in upgrading a low quality loan portfolio. In addition, the written Management Succession Plan shall:

- (a) identify present and future management and staffing requirements for each business line of the Association commensurate with the Association's Capital and Business Plan;
- (b) identify the Association officers covered by the Management Succession Plan, such as the Chief Executive Officer and Chief Credit Officer;
- (c) include recommendations as to whether senior management or staffing changes should be made, including the need for additions to or deletions from the current management team;
- (d) identify possible successors for the officer positions from current employees of the Association based on a list of skills and competencies desired for each officer position or indicate where outside recruiting will be necessary;
- (e) require the establishment of career development and training plans for potential officer candidates;
- (f) include objectives by which senior management's effectiveness will be measured;
- (g) include recommendations to correct or eliminate any deficiencies in the management or organizational structure of the Association;
- (h) include an assessment of the Board's independence and fulfillment of its oversight function;

- (i) include an assessment on whether the capabilities of the Board as a whole would be enhanced through the addition of persons with particular skills and experience in connection with the Association's risk profile and activities; and
- (j) require periodic evaluation by the Board of whether the goals and outcomes of the Management Succession Plan need updating or adjusting.

23. Upon receipt of written notification from the Regional Director that the Management Succession Plan is acceptable, the Association shall implement and adhere to the Management Succession Plan. The Board's review of the Management Succession Plan shall be documented in the Board meeting minutes.

Information Technology.

24. Within sixty (60) days, the Association shall implement written information technology (IT) policies and procedures that address all corrective actions set forth in the 2010 ROE relating to IT and comply with all applicable laws, regulations, and regulatory guidance.

Liquidity Management.

25. Within sixty (60) days, the Association shall revise its liquidity and funds management policy (Liquidity Management Policy) to address all corrective actions set forth in the 2010 ROE relating to liquidity and funds management. The Liquidity Management Policy shall comply with all applicable laws, regulations and regulatory guidance.

Growth.

26. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written non-objection of the Regional Director.

Golden Parachute Payments.

27. Effective immediately, the Association shall not make any golden parachute payment⁵ unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

Directorate and Management Changes.

28. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H.

Employment Contracts and Compensation Arrangements.

29. Effective immediately, the Association shall not enter into any new contractual arrangement or renew, extend, or revise any contractual arrangement relating to compensation or benefits for any director or Senior Executive Officer of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such director or Senior Executive Officer, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Third Party Contracts.

30. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial

⁵ The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

condition of the Association⁶ or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that the arrangement or contract complies with the standards and guidelines set forth in OTS Thrift Bulletin 82a; and (b) received written notice of non-objection from the Regional Director.

Brokered Deposits.

31. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b). The Association shall provide to the Regional Director a copy of any waiver request submitted to the Federal Deposit Insurance Corporation.

Effective Date, Incorporation of Stipulation.

32. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

33. This Order shall remain in effect until terminated, modified, or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

34. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

35. The Regional Director or an OTS authorized representative may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that

⁶ A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

36. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

37. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission, or hand delivery by messenger) addressed as follows:

(a) **To the OTS:**

Regional Director
Office of Thrift Supervision
One South Wacker Drive, Suite 2000
Chicago, Illinois 60606
Facsimile: (312) 917-5001

(b) **To the Association:**

Chairman of the Board
SCB Bank
29 East Washington Street
Shelbyville, Indiana 46176
Facsimile: (317) 835-0306

Transfer Date.

38. Following the Transfer Date, *see* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. Law No. 111-203, § 311, 124 Stat. 1520 – 21 (2010), all submissions, requests, communications, consents or other documents relating to this Order shall be directed to the Comptroller of the Currency, or to the individual, division, or office designated by the Comptroller of the Currency.

No Violations Authorized.

39. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____/s/_____
Daniel T. McKee
Regional Director, Central Region

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: CN 11-12
)	
)	
SCB BANK)	Effective Date: May 16, 2011
)	
)	
Shelbyville, Indiana)	
OTS Docket No. 04044)	
_____)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed SCB Bank, Shelbyville, Indiana, OTS Docket No. 04044 (Association) that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or

denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is an “insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).
2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

OTS Findings of Fact.

3. Based on a comprehensive examination of the Association as described in the OTS Report of Examination dated September 13, 2010 (2010 ROE), the OTS finds that the Association has engaged in unsafe or unsound banking practices that resulted in the Association operating with:

- (a) an excessive level of adversely classified assets; and
- (b) inadequate earnings to augment capital as described in the 2010 ROE.

4. Based on the 2010 ROE, the OTS finds that the Association violated the following laws and regulations:

- (a) 12 C.F.R. § 567.6 (requiring risk-based capital calculations to include recourse obligations);

- (b) 12 C.F.R. Part 570 – Appendix B (requiring an annual report to the board of directors regarding the Association’s customer information security program);
- (c) 12 C.F.R. § 202.9(a)(1) (requiring adverse action notices be sent to certain loan applicants);
- (d) 12 C.F.R. § 202.13(a)(1) (prohibiting the collection of Government Monitoring Information on certain loan applicants); and
- (e) 12 C.F.R. § 572.9(a) and (d) (requiring timely notice of a residence located in special flood hazard area).

Consent.

5. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

Finality.

6. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

Waivers.

7. The Association waives the following:
- (a) the right to be served with a written notice of the OTS’s charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
 - (b) the right to an administrative hearing of the OTS’s charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;

- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

OTS Authority Not Affected.

8. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

9. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 8 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

10. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

11. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and

enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

12. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

13. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

14. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

15. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

Signature of Directors/Board Resolution.

16. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting.

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WHEREFORE, the Association, by its directors, executes this Stipulation.

SCB BANK
Shelbyville, Indiana

Accepted by:
Office of Thrift Supervision

_____/s/
Russell Breedon, III, Chairman

By:_____/s/
Daniel T. McKee
Regional Director, Central Region

_____/s/
Steven R. Abel, Director

Date: See Effective Date on page 1

_____/s/
Wendell L. Bernard, Director

_____/s/
Peter G. DePrez, Director

_____/s/
Wayne C. Ramsey, Director